



MUNICIPAL ENERGY SERVICES AGENCY

FINANCIAL STATEMENTS
Including Independent Auditors' Report

Years Ended December 31, 2016 and 2015

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INDEPENDENT AUDITORS' REPORT

To the Board of Participants
Municipal Energy Services Agency:

Report on the Financial Statements

We have audited the accompanying financial statements of Municipal Energy Services Agency ("MESA"), which comprise the statements of net position as of December 31, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Municipal Energy Services Agency as of December 31, 2016 and 2015, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules of proportionate share of net pension liability and pension contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2017 on our consideration of MESA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MESA's internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
April 19, 2017

MUNICIPAL ENERGY SERVICES AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016, 2015 and 2014

(Unaudited)

Financial Statement Overview

This discussion and analysis provides an overview of the financial performance of Municipal Energy Services Agency ("MESA") for the years ended December 31, 2016 and 2015. The information presented should be read in conjunction with the basic financial statements and the accompanying notes.

MESA prepares its basic financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. MESA's basic financial statements include the statements of net position; the statements of revenues, expenses and changes in net position; and the statements of cash flows.

The statements of net position provide information about the nature and amount of assets and liabilities of MESA as of the end of the year. The statements of revenues, expenses and changes in net position report revenues and expenses for the year. The statements of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operating and investing activities.

Financial Highlights

The following table summarizes the financial position of MESA as of December 31:

Condensed Statement of Net Position

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Assets			
Cash and short term investments	\$ 3,713,237	\$ 1,282,315	\$ 1,736,522
Receivables from AMP members	458,230	374,778	429,540
Receivables from related parties	2,311,696	5,395,334	2,171,947
Costs/recoveries in excess of member project billings	289,947	243,048	311,105
Prepaid expenses	2,083	2,125	2,125
Total Current Assets	<u>\$ 6,775,193</u>	<u>\$ 7,297,600</u>	<u>\$ 4,651,239</u>
Deferred Outflows of Resources			
Pension	<u>\$ 5,022,656</u>	<u>\$ 1,496,200</u>	<u>\$ 1,263,530</u>
Total assets and deferred outflows	<u>\$ 11,797,849</u>	<u>\$ 8,793,800</u>	<u>\$ 5,914,769</u>
Liabilities			
Current liabilities	\$ 5,251,901	\$ 5,651,270	\$ 2,791,733
Noncurrent liabilities			
Net pension liability	12,969,890	9,925,281	9,730,641
Other long-term amounts	1,523,292	1,646,330	1,859,506
Total liabilities	<u>\$ 19,745,083</u>	<u>\$ 17,222,881</u>	<u>\$ 14,381,880</u>
Deferred Inflows of Resources			
Pension	912,452	187,890	-
Net Position:			
Unrestricted	<u>\$ (8,859,686)</u>	<u>\$ (8,616,971)</u>	<u>\$ (8,467,111)</u>
Total net position, liabilities and deferred inflows	<u>\$ 11,797,849</u>	<u>\$ 8,793,800</u>	<u>\$ 5,914,769</u>

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December 31, 2016, 2015 and 2014

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During 2015, MESA adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of MESA's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals MESA's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service
- 2 Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, MESA is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system as against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded

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(Unaudited)

portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, MESA's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, MESA is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

2016 vs. 2015

Total assets were \$6,775,193 and \$7,297,600 as of December 31, 2016 and December 31, 2015, respectively, a decrease of \$522,407. This was due to an increase in cash of \$2,430,922 offset by a decrease in net receivables of \$3,000,186.

Deferred outflows of resources were \$5,022,656 in 2016 as compared to \$1,496,200 in 2015, an increase of \$3,526,456. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. The change in 2016 to 2015 balance represents contributions subsequent to measurement date and the change in expected investment returns as compared to actual.

Total liabilities were \$19,745,083 and \$17,222,881 as of December 31, 2016 and December 31, 2015, respectively, an increase of \$2,522,202. This increase was due mainly to an increase in the change in net pension liability.

Current liabilities were \$5,251,901 and \$5,651,270 as of December 31, 2016 and December 31, 2015, respectively, a decrease of \$399,369. This was due to an increase in payables to related parties of \$740,320 offset by decreases in accounts payable and accrued employee related expenses.

Other long-term liabilities were \$1,523,292 and \$1,646,330 as of December 31, 2016 and December 31, 2015, respectively, a decrease of \$123,038. Non-current liabilities are comprised of accrued sick leave. The decrease is due to change in employee headcount and benefits paid, offset by benefits earned.

Net pension liability was \$12,969,890 as compared to \$9,925,281, as of December 31, 2016 and December 31, 2015, respectively. This change represents an increase of \$3,044,609 due to changes in net pension liability at the plan level.

Deferred inflows of resources were \$912,452 and \$187,890 as of December 31, 2016 and December 31, 2015, respectively. The change in 2016 to 2015 balance represents the change between expected and actual experience for the pension plan.

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December 31, 2016, 2015 and 2014

(Unaudited)

2015 vs. 2014

Total assets were \$7,297,600 and \$4,651,239 as of December 31, 2015 and December 31, 2014, respectively, an increase of \$2,646,361. This was due to increase in receivables from related parties offset by decreases in operating cash.

Deferred outflows of resources were \$1,496,200 in 2015 as compared to \$1,263,530 in 2014, an increase of \$232,670. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. The change in 2015 to 2014 balance represents contributions subsequent to measurement date and the change in expected investment returns as compared to actual.

Total liabilities were \$17,222,881 and \$14,381,880 as of December 31, 2015 and December 31, 2014, respectively, an increase of \$2,841,001. This increase was due mainly to an increase in accounts payable and accruals due to the timing of expenses paid and change in net pension liability.

Current liabilities were \$5,651,270 and \$2,791,733 as of December 31, 2015 and December 31, 2014, respectively, an increase of \$2,859,537. This was due mainly to increases in accounts payable of \$2,334,662.

Other long-term liabilities were \$1,646,330 and \$1,859,506 as of December 31, 2015 and December 31, 2014, respectively, a decrease of \$213,176. Non-current liabilities are comprised of accrued sick leave. The decrease is due to change in employee headcount and benefits paid out, offset by benefits earned.

Net pension liability was \$9,925,281 as compared to \$9,730,641, as of December 31, 2015 and December 31, 2014, respectively. This change represents an increase of \$194,640 due to changes in net pension liability at the plan level.

Deferred inflows of resources were \$187,890 and \$0 as of December 31, 2015 and December 31, 2014, respectively. The change in 2015 to 2014 balance represents the change between expected and actual experience for the pension plan.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2016, 2015 and 2014

(Unaudited)

The following table summarizes the changes in revenues, expenses and changes in net position of MESA for the years ended December 31:

Condensed Statement of Revenues, Expenses and Changes in Net Position

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenues	\$ 16,680,756	\$ 17,123,891	\$ 18,779,896
Operating expenses	<u>16,923,471</u>	<u>17,274,003</u>	<u>18,780,620</u>
Operating Loss	<u>(242,715)</u>	<u>(150,112)</u>	<u>(724)</u>
Nonoperating revenue			
Investment income	<u>-</u>	<u>252</u>	<u>724</u>
Change in Net Position	<u>\$ (242,715)</u>	<u>\$ (149,860)</u>	<u>\$ -</u>

Operating revenues in 2016 were \$16,680,756 versus \$17,123,891 in 2015 which was a decrease of \$443,135. MESA has primarily two sources of revenues; projects for members and providing personnel services to related parties. Revenue from projects on behalf of members increased by \$244,304 due to increased activity experienced during the year. Revenue from providing personnel services to related parties decreased by \$687,439, due mainly to a decrease in MESA headcount from prior year.

Operating expenses in 2016 were \$16,923,471 versus \$17,274,003 in 2015 which was a decrease of \$350,532. This decrease was primarily due to the decrease in MESA headcount from fiscal year 2015.

Investment income for MESA is limited to interest earned in the checking account for the operating funds held at the bank. Investment income in 2016 was \$0 versus \$252 in 2015 which was a decrease of \$252.

If you have questions about this report, or need additional financial information, contact management at 614.540.1111 or 1111 Schrock Road – Suite 100, Columbus, OH 43229.

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STATEMENTS OF NET POSITION
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and short term investments	\$ 3,713,237	\$ 1,282,315
Receivables from AMP members	458,230	374,778
Receivables from related parties	2,311,696	5,395,334
Costs and recoveries in excess of billings from projects constructed on behalf of members	289,947	243,048
Prepaid expenses	<u>2,083</u>	<u>2,125</u>
Total Current Assets	<u>6,775,193</u>	<u>7,297,600</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension	<u>5,022,656</u>	<u>1,496,200</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>5,022,656</u>	<u>1,496,200</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 11,797,849</u>	<u>\$ 8,793,800</u>
LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 173,659	\$ 286,174
Payable to related parties	3,086,630	2,346,310
Accrued salaries and related benefits	890,100	1,627,510
Accrued vacation leave	<u>1,101,512</u>	<u>1,391,276</u>
Total Current Liabilities	<u>5,251,901</u>	<u>5,651,270</u>
NON CURRENT LIABILITIES		
Accrued sick leave	1,523,292	1,646,330
Net pension liability	<u>12,969,890</u>	<u>9,925,281</u>
Total Non Current Liabilities	<u>14,493,182</u>	<u>11,571,611</u>
Total Liabilities	<u>19,745,083</u>	<u>17,222,881</u>
DEFERRED INFLOW OF RESOURCES		
Pension	<u>912,452</u>	<u>187,890</u>
TOTAL DEFERRED INFLOW OF RESOURCES	<u>912,452</u>	<u>187,890</u>
NET POSITION		
Unrestricted	<u>(8,859,686)</u>	<u>(8,616,971)</u>
Total Net Position	<u>(8,859,686)</u>	<u>(8,616,971)</u>
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION	<u>\$ 11,797,849</u>	<u>\$ 8,793,800</u>

MUNICIPAL ENERGY SERVICES AGENCY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Services	\$ 15,761,102	\$ 15,959,933
Project revenue	919,654	1,163,958
Total Operating Revenues	<u>16,680,756</u>	<u>17,123,891</u>
OPERATING EXPENSES		
Salaries and related benefits	15,735,066	15,936,105
Professional fees	169,416	146,824
Direct project expenses	809,949	1,023,946
Insurance	28,362	26,547
Other operating expense	180,678	140,581
Total Operating Expenses	<u>16,923,471</u>	<u>17,274,003</u>
Operating Gain (Loss)	<u>(242,715)</u>	<u>(150,112)</u>
NONOPERATING REVENUES		
Investment income	<u>-</u>	<u>252</u>
Change in net position	(242,715)	(149,860)
NET POSITION, Beginning of Year, Restated	<u>(8,616,971)</u>	<u>(8,467,111)</u>
NET POSITION, END OF YEAR	<u>\$ (8,859,686)</u>	<u>\$ (8,616,971)</u>

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STATEMENTS OF CASH FLOWS Years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from AMP members for services	\$ 836,202	\$ 1,218,720
Cash received from related parties for services	18,797,841	12,804,603
Cash payments to employees for services	(16,257,473)	(13,289,744)
Cash payments to suppliers and related parties for goods and services	<u>(945,648)</u>	<u>(1,188,038)</u>
Net Cash Provided by (Used in) Operating Activities	<u>2,430,922</u>	<u>(454,459)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	<u>-</u>	<u>252</u>
Net Cash Provided by Investing Activities	<u>-</u>	<u>252</u>
Net Change in Cash and Cash Equivalents	2,430,922	(454,207)
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>1,282,315</u>	<u>1,736,522</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,713,237</u>	<u>\$ 1,282,315</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating loss	\$ (242,715)	\$ (150,112)
Changes in assets and liabilities		
Receivables from AMP	(83,452)	54,762
Receivables from related parties	3,083,638	(3,223,387)
Costs and estimated earnings in excess of billings from projects constructed on behalf of members	(46,899)	68,057
Prepaid expenses	42	-
Deferred inflows and outflows, net	(2,801,894)	(44,780)
Accounts payable and accrued expenses	(112,515)	(11,648)
Accounts payable to related parties	740,320	2,316,823
Accrued salaries and related benefits	(737,410)	581,617
Accrued vacation and sick leave	(412,802)	(240,431)
Net pension liability	<u>3,044,609</u>	<u>194,640</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 2,430,922</u>	<u>\$ (454,459)</u>

MUNICIPAL ENERGY SERVICES AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Municipal Energy Services Agency (“MESA”) was organized by 31 subdivisions of the State of Ohio (the “Participants”) on December 31, 1996, pursuant to a Joint Venture Agreement (the “Agreement”) under the Ohio Constitution and Section 715.02 of the Ohio Revised Code. As of December 31, 2016, there were 48 Participants in MESA. Its purpose is to provide access to a pool of personnel experienced in planning, engineering, construction, safety training, finance, administration and other aspects of the operation and maintenance of municipal electric and other utility systems. The participants are members of American Municipal Power, Inc. (“AMP”). MESA also provides personnel and administrative services to AMP, the Ohio Municipal Electric Generation Agency Joint Ventures: 1, 2, 4, 5, and 6 (“OMEGA JVs”) and the Ohio Municipal Electric Association (“OMEA”). The Agreement continues until December 31, 2008, and thereafter for successive terms of three years so long as at least two participants have not given notice of termination of participation. At December 31, 2016, no notice of termination has been received.

The following summarizes the significant accounting policies followed by MESA.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ASSETS, LIABILITIES AND NET POSITION

Deposits and Investments

For purposes of the statements of cash flows, cash and cash equivalents have original maturities of three months or less from the date of acquisition, except that restricted cash accounts, if any, are treated as investments in the statement of cash flows.

MESA has elected to comply with Ohio Revised Code (ORC) section 135.14. Under ORC 135.14, investments are limited to:

1. Deposits at eligible institutions pursuant to ORC section 135.08, 135.09 and 135.18.
2. Bonds or other obligations of the state.
3. Bonds or securities issued or guaranteed by the federal government and its agencies.
4. Bankers acceptances, with certain conditions.
5. The local government investment pool.
6. Commercial paper, with certain conditions.
7. All investments must have an original maturity of 5 years or less.
8. Repurchase agreements with public depositories, with certain conditions.

MUNICIPAL ENERGY SERVICES AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

MESA has adopted an investment policy. That policy follows the state statute for allowable investments and specifies the maximum concentration of investments in each eligible security.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Market values may have changed significantly after year end.

Receivables/Payables

Accounts receivable are amounts due from participants, related parties, and other members of AMP at the end of the year. Due to the participant relationship and the high degree of collectibility, no allowance for uncollectible accounts is necessary. Accounts payable are amounts due to vendors for services incurred.

Prepaid Expenses

Prepaid expenses represent costs of insurance paid during the current calendar year for coverage in subsequent years.

Accrued Vacation and Sick Leave

MESA records a liability for compensated absences (sick and vacation) attributable to services rendered. Vacation leave for which employees can receive compensation in a future period is recorded as earned by the employees. Sick leave is recorded for those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future to receive such payments.

PENSIONS

For purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plan and additions to/deductions from its fiduciary net position have been determined on the same basis as they are reported by the pension system. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. For MESA, deferred outflows of resources are reported for pension, explained further in Note 5.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position

MUNICIPAL ENERGY SERVICES AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

that applies to a future period and will not be recognized as an inflow until that time. For MESA, deferred inflows of resources are reported for pension, explained further in Note 5.

SERVICE REVENUE AND EXPENSES

Revenues are recognized as services are performed. Service revenue is charged to AMP, the OMEGA JVs, and OMEA at a rate to recover the cost of salaries incurred related to work performed for each entity plus an overhead rate ranging from 0% to 150%. To the extent that the overhead amount charged is different from actual overhead charges incurred, MESA adjusts the amount charged to AMP. AMP absorbs any undercharges and uses any excess charges to offset other administrative expenses incurred, which benefits all members of AMP.

PROJECT REVENUE AND EXPENSES

MESA performs short-term and long-term construction and technical service projects for the members of AMP. Short-term service project revenues are recognized when costs are incurred. Long-term project revenues are recognized in accordance with the American Institute of Certified Public Accountants Statement of Position 81-1 ("SOP 81-1"), *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* for time and materials contracts. In accordance with SOP 81-1, revenue from time and material contracts is recognized to the extent of billable rates times hours delivered plus materials and expenses incurred. Materials and expenses are typically billed at cost. General and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted projects are made in the period in which such losses are identified. Changes in project performance, project conditions and estimated profitability are recognized in the period in which the revisions become known.

Costs and recoveries in excess of billings from projects constructed on behalf of members represent unbilled services and reimbursable materials and expenses associated with ongoing projects. Billings in excess of costs and recoveries for projects constructed on behalf of members represent advanced billings for services to be performed at a future date for ongoing projects. Direct project expenses include an allocation of operating expenses.

MESA distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with MESA's principal ongoing operations. Operating expenses for MESA include the cost of sales and services, and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

MUNICIPAL ENERGY SERVICES AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

NOTE 2 – CASH AND TEMPORARY INVESTMENTS

For purposes of the statements of cash flows, cash and cash equivalents consist of unrestricted cash and highly liquid short-term investments with original maturities of three months or less. Restricted cash accounts, if any, are treated as investments in the statements of cash flows, since they are not available for use.

	Carrying Value as of December 31,		Risks
	2016	2015	
Checking / Money Market Funds	\$ 3,713,237	\$ 1,282,315	Custodial credit
Total Cash and Cash Equivalents	\$ 3,713,237	\$ 1,282,315	

Deposits in each local and area bank are insured by the FDIC in the amount of \$250,000 for interest and noninterest bearing accounts as of December 31, 2016 and 2015.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, MESA's deposits may not be returned to it. MESA has custodial credit risk on its cash and temporary investments balance to the extent the balance exceeds the federally insured limit. However, MESA's investment policy requires that amounts in excess of FDIC limits be collateralized by government securities. As of December 31, 2016 and 2015 there were no deposits exposed to custodial credit risk.

Credit Risk

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations. MESA invests in instruments approved under the entity's investment policy. The Board of Participants has authorized MESA to invest in funds in accordance with the Ohio Revised Code. Allowable investments include United States Treasury and federal and state government agency obligations, money market funds, and commercial paper with the highest classification by at least two nationally recognized standard rating services.

Interest Rate Risk

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment. MESA's investment policy limits the maturity of commercial paper and bankers acceptances to 180 days.

MUNICIPAL ENERGY SERVICES AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

NOTE 3 – HEALTH INSURANCE

MESA is self-insured for health, dental and prescription drug benefits. The programs are administered by a third-party, which provides claims review and processing services. MESA records a liability for incurred but unreported claims at year end upon an actuarial estimate based on past experience and current claims outstanding.

Changes in funds' claim liability amount in 2016 and 2015 were:

Year	Balance at Beginning of Year	Current Year Claims and Change in Estimate	Claims Payments	Balance at End of Year
2016	\$ 239,228	\$ 2,114,719	\$ 2,107,653	\$ 246,294
2015	\$ 76,807	\$ 2,421,969	\$ 2,259,548	\$ 239,228

NOTE 4 – LONG TERM LIABILITY

Long-term liability activity for the years ended December 31, 2016 and 2015 is as follows:

	2016				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Accrued sick leave	\$ 1,646,330	\$ 114,386	\$ (237,424)	\$ 1,523,292	\$ -
Net pension liability	9,925,281	3,044,609	-	12,969,890	-
	<u>\$ 11,571,611</u>	<u>\$ 3,158,995</u>	<u>\$ (237,424)</u>	<u>\$ 14,493,182</u>	<u>\$ -</u>
	2015				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Accrued sick leave	\$ 1,859,506	\$ 15,717	\$ (228,893)	\$ 1,646,330	\$ -
Net pension liability	9,730,641	194,640	-	9,925,281	-
	<u>\$ 11,590,147</u>	<u>\$ 210,357</u>	<u>\$ (228,893)</u>	<u>\$ 11,571,611</u>	<u>\$ -</u>

MUNICIPAL ENERGY SERVICES AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

NOTE 5 – POSTEMPLOYMENT BENEFITS

NET PENSION LIABILITY

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions between an employer and its employees of salaries and benefits for employee services. Pensions are provided to an employee on a deferred-payment basis as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents MESA's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits MESA's obligation for this liability to annually required payments. MESA cannot control benefit terms or the manner in which pensions are financed; however, MESA does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *accrued salaries and related benefits* on the accrual basis of accounting.

PLAN DESCRIPTION

MESA employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed plan is a defined contribution plan and the Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. All public employees in Ohio, except those covered by one of the other state or local retirement systems in Ohio, are members of OPERS. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code. OPERS issues a publicly available, stand-alone financial report that includes financial statements, required supplementary information and detailed

MUNICIPAL ENERGY SERVICES AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

NOTE 5 – POSTEMPLOYMENT BENEFITS (cont.)

information about OPERS's fiduciary net position. That report can be obtained by visiting <https://www.opers.org/about/finance/index.shtml>.

The Traditional Pension Plan. The Traditional Pension Plan is a defined benefit plan in which a member's retirement benefits are calculated on a formula that considers years of service and final average salary. The pension benefits are funded by both member and employer contributions, and investment earnings on those contributions.

The Combined Plan. The Combined Plan is a defined benefit plan with elements of a defined contribution plan. Under the Combined Plan, members earn a formula benefit similar to, but at a factor less than, the Traditional Pension Plan benefit. This defined benefit is funded by employer contributions and associated investment earnings. Additionally, member contributions are deposited into a defined contribution account in which the member self-directs the investment. Upon retirement or termination, the member may choose a defined contribution retirement distribution that is equal in amount to the member's contributions to the plan and investment earnings (or losses) on those contributions. Members may also elect to use their defined contribution account balances to purchase a defined benefit annuity administered by OPERS.

The Member-Directed Plan. The Member-Directed Plan is a defined contribution plan in which members self-direct the investment of both member and employer contributions. The retirement distribution under this plan is equal to the sum of member and vested employer contributions, plus investment earnings (or losses) on those contributions. Employer contributions and associated investment earnings vest over a five-year period at a rate of 20% per year. Upon retirement or termination, the member may choose a defined contribution retirement distribution, or may elect to use his/her defined contribution account balances to purchase a defined benefit annuity administered by OPERS.

Plan benefits, and any benefit increases, are established by legislature pursuant to Chapter 145 of the Ohio Revised Code. The Board of Trustees, pursuant to Chapter 145, has elected to maintain funds to provide health care coverage to eligible Traditional Pension and Combined plan retirees and survivors of members. Health care coverage does not vest and is not required under Chapter 145. As a result, coverage may be reduced or eliminated at the discretion of the Board.

Senate Bill (SB) 343 enacted into law new legislation with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. Members who were eligible to retire under law in effect prior to SB 343 or will be eligible to retire no later than five years after January 7, 2013, comprise transition Group A. Members who have 20 years of service credit prior to January 7, 2013, or will be eligible to retire no later than 10 years after January 7, 2013, are included in transition Group B. Group C includes those members who are not in either of the other groups and members who were hired on or after January 7, 2013.

Age and Service Defined Benefits. Benefits in the Traditional Pension Plan for members are calculated on the basis of age, final average salary, and service credit. Members in transition Groups A and B are eligible for retirement benefits at age 60 with 5 years of service credit or at age 55 with 25 or more years of service credit. Members in transition Group C are eligible for retirement at age 57 with 25 years of service or at age 62 with 5 years of service. For Groups A and B, the annual benefit is based

MUNICIPAL ENERGY SERVICES AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

NOTE 5 – POSTEMPLOYMENT BENEFITS (cont.)

on 2.2% of final average salary multiplied by the actual years of service for the first 30 years of service credit and 2.5% for years of service in excess of 30 years. For Group C, the annual benefit applies a factor of 2.2% for the first 35 years and a factor of 2.5% for the years of service in excess of 35. The final average salary represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on an average of the five highest years of earnings over a member's career. Members who retire before meeting the age and years of service credit requirement for unreduced benefit receive a percentage reduction in the benefit amount. The base amount of a member's pension benefit is locked in upon receipt of the initial benefit payment for calculation of annual cost-of-living adjustment.

Benefits in the Combined Plan consist of both an age and service formula benefit (defined benefit) and a defined contribution element. The defined benefit element is calculated on the basis of age, final average salary, and years of service. Eligibility regarding age and years of service in the Combined Plan is the same as the Traditional Pension Plan. The benefit formula for the defined benefit component of the plan for members in transition Groups A and B applies a factor of 1.0% to the member's final average salary for the first 30 years of service. A factor of 1.25% is applied to years of service in excess of 30. The benefit formula for transition Group C applies a factor of 1.0% to the member's final average salary for the first 35 years of service and a factor of 1.25% is applied to years in excess of 35. Persons retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit. The defined contribution portion of the benefit is based on accumulated member contributions, plus or minus any investment gains or losses on those contributions.

Defined Contribution Benefits. Defined contribution plan benefits are established in the plan documents, which may be amended by the Board. Member-Directed Plan and Combined Plan members who have met the eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the Combined Plan was discussed above. Member-Directed participants must have attained the age of 55, have money on deposit in the defined contribution plan and have terminated public service to apply for retirement benefits. The amount available for defined contribution benefits in the Member-Directed Plan consists of the member's contributions, vested employer contributions and investment gains and losses resulting from the member's investment selections. Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20% each year. At retirement, members may select one of several distribution options for payment of the vested balance of their individual OPERS accounts. Options include the purchase of a monthly annuity from OPERS (which includes joint and survivor options), partial lump-sum payments (subject to limitations), a rollover of the vested account balance to another financial institution, receipt of the entire account balance, net of taxes withheld, or a combination of these options.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3% simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2018, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3%.

MUNICIPAL ENERGY SERVICES AGENCY

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 5 – POSTEMPLOYMENT BENEFITS (cont.)

FUNDING POLICY

The OPERS funding policy provides for periodic employee and employer contributions to all three plans at rates established by the Board, subject to limits set in statute. The rates established for member and employer contributions were approved based upon the recommendations of OPERS' external actuary. All contribution rates were within the limits authorized by the Ohio Revised Code. Member and employer contribution rates, as a percent of covered payroll, were the same for each covered group across all three plans for the year ended December 31, 2016. Plan members were required to contribute 10% of covered payroll. MESA's contribution rate was 14% of covered payroll.

MESA's contractually required contributions to OPERS for the Traditional Pension and Combined plans for 2016, 2015, and 2014 were \$1,154,846, \$961,823, and \$1,263,530, respectively.

PENSION LIABILITIES, PENSION EXPENSE, DEFERRED OUTFLOWS OF RESOURCES, AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPERS

The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. MESA's proportion of the net pension liability was based on MESA's share of contributions to the pension plan relative to the contributions of all participating entities. For reporting purposes, MESA combined the amounts for both the Traditional and Combined plans, due to insignificance of the amounts that related to the Combined Plan. As its proportionate share, MESA reported a net pension liability of \$12,969,890 at December 31, 2016 as compared to \$9,925,281 at December 31, 2015. For December 31, 2016, MESA's proportion was 0.0748784% for the Traditional Plan and 0.0836300% for the Combined Plan. MESA recognized \$1,397,560 in pension expense.

The following amounts are reported as deferred outflows and inflows of resources at December 31:

	2016		
	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>	<u>Net Deferred Outflows/ (Inflows) of Resources</u>
MESA contributions subsequent to measurement date	\$ 1,154,846	\$ -	\$ 1,154,846
Net difference between projected and actual investment earnings	3,867,810	-	3,867,810
Difference between expected and actual experience	-	(912,452)	(912,452)
	<u>\$ 5,022,656</u>	<u>\$ (912,452)</u>	<u>\$ 4,110,204</u>
	2015		
	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>	<u>Net Deferred Outflows/ (Inflows) of Resources</u>
MESA contributions subsequent to measurement date	\$ 961,823	\$ -	\$ 961,823
Net difference between projected and actual investment earnings	534,377	-	534,377
Difference between expected and actual experience	-	(187,890)	(187,890)
	<u>\$ 1,496,200</u>	<u>\$ (187,890)</u>	<u>\$ 1,308,310</u>

MUNICIPAL ENERGY SERVICES AGENCY

NOTES TO FINANCIAL STATEMENTS
December 31, 2016 and 2015

NOTE 5 – POSTEMPLOYMENT BENEFITS (cont.)

\$1,154,846 reported as deferred outflows of resources relate to pension resulting from MESA contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows and deferred inflows related to pension will be recognized in pension expense as follows:

Amortization of remaining deferred outflows/(inflows)

2017	546,166
2018	613,441
2019	936,496
2020	865,088
2021	(1,668)
Thereafter	(4,165)
	2,955,358

ACTUARIAL ASSUMPTIONS

Total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>Traditional Plan</u>	<u>Combined Plan</u>
Investment rate of return	8.00%	8.00%
Wage inflation	3.75%	3.75%
Projected salary increases	4.25% - 10.05%	4.25% - 8.05%
	(includes wage inflation at 3.75%)	(includes wage inflation at 3.75%)
Cost-of-living adjustments	3.00% Simple	3.00% Simple

Mortality rates are the RP-2000 mortality table projected 20 years using Projected Scale AA. For males, 105% of the combined health male mortality rates were used. For females, 100% of the combined health female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males, 120% of the disable female mortality rates were used, set forward two years. For females, 100% of the disabled female mortality rates were used.

The most recent experience study was completed for the five-year period ended December 31, 2010.

LONG TERM EXPECTED RATE OF RETURN

OPERS manages investments in four investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money-weighted rate of return, net of investment expense, for the Defined Benefit portfolio is 0.4% for 2015.

MUNICIPAL ENERGY SERVICES AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

NOTE 5 – POSTEMPLOYMENT BENEFITS (cont.)

The allocation of investment assets within the Defined Benefit portfolio is approved by the Board as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The long term expected rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage, adjusted for inflation. The following table displays the Board-approved asset allocation policy and the long term expected arithmetic real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return
Fixed Income	23.00%	2.31%
Domestic Equities	20.70%	5.84%
Real Estate	10.00%	4.25%
Private Equity	10.00%	9.25%
International Equities	18.30%	7.40%
Other Investments	18.00%	4.59%
Total	<u>100.00%</u>	<u>5.28%</u>

DISCOUNT RATE

The discount rate used to measure the total pension liability was 8.0% for both the Traditional Pension Plan and the Combined Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for both the Traditional Pension Plan and the Combined Plan was applied to all periods of projected benefit payments to determine the total pension liability.

SENSITIVITY OF THE EMPLOYER'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE

The following chart represents MESA's proportionate share of the net pension liability at the 8% discount rate as well as the sensitivity to a 1% increase and 1% decrease in the current discount rate:

	1% Decrease (7.00%)	Current Discount Rate of 8%	1% Increase (9.00%)
MESA's proportionate share of the net pension liability	\$ 20,663,369	\$ 12,969,890	\$ 6,404,223

MUNICIPAL ENERGY SERVICES AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

NOTE 5 – POSTEMPLOYMENT BENEFITS (cont.)

OTHER POSTEMPLOYMENT BENEFITS

OPERS also maintains two cost-sharing, multiple-employer defined benefit post-employment health care trusts, which fund multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS-sponsored health care coverage.

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 45. Please see the Plan Statement in the OPERS 2015 CAFR for details.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

The Ohio Revised Code provides the statutory authority requiring public employers to fund health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

OPERS maintains three health care trusts. The two cost-sharing, multiple-employer trusts, the 401(h) Health Care Trust and the 115 Health Care Trust, work together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) that provides funding for a Retiree Medical Account for Member-Directed Plan members. Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0% during calendar year 2016. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2017 decreased to 1.0% for both plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the VEBA for participants in the Member-Directed Plan for 2016 was 4.0%.

The portion of employer contributions that were used to fund health care for 2016, 2015, and 2014 were \$235,104, \$182,939, and \$240,420, respectively.

MUNICIPAL ENERGY SERVICES AGENCY

NOTES TO FINANCIAL STATEMENTS December 31, 2016 and 2015

NOTE 6 – RISK MANAGEMENT

MESA is covered under the insurance policies of AMP and is billed for its proportionate share of the insurance expense. AMP maintains insurance policies related to commercial property, motor vehicle liability, workers' compensation, health care excess liability, general liability, directors' and officers' insurance, fiduciary liability, and crime and fidelity coverage. In addition, MESA maintains an errors and omissions policy related to engineering services it performs. No claims have been filed in the past three years. There were no significant reductions in coverage compared to the prior year.

NOTE 7 – RELATED PARTY TRANSACTIONS

Pursuant to the Agreement, AMP was designated as an agent and provides MESA various management and operational services. As MESA's agent, AMP enters into agreements with related entities to have MESA provide services. Revenues earned from these agreements for the years ended December 31 are as follows:

	<u>2016</u>	<u>2015</u>
AMP	\$ 12,831,392	\$ 13,682,648
Ohio Municipal Electric Generation Agency Joint Venture 1	39,586	44,095
Ohio Municipal Electric Generation Agency Joint Venture 2	950,974	775,364
Ohio Municipal Electric Generation Agency Joint Venture 4	20,179	21,187
Ohio Municipal Electric Generation Agency Joint Venture 5	2,085,852	2,031,158
Ohio Municipal Electric Generation Agency Joint Venture 6	69,164	75,241
Ohio Municipal Electric Association	233,511	139,433
AMP Members	<u>450,098</u>	<u>354,765</u>
Totals	<u>\$ 16,680,756</u>	<u>\$ 17,123,891</u>

At December 31, 2016 and 2015, MESA had receivables from affiliates of \$2,311,696 and \$5,395,334, respectively. At December 31, 2016 and 2015, MESA had a receivable from members of AMP of \$458,230 and \$374,778, respectively. At December 31, 2016 and 2015, MESA had a payable to AMP for \$3,086,630 and \$2,346,310, respectively.

MUNICIPAL ENERGY SERVICES AGENCY

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF MESA'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM
 Last Three Measurement Years (1), (2)

	<u>2015</u>	<u>2014</u>	<u>2013</u>
MESA's Proportion of the Net Pension Liability	0.074879%	0.082551%	0.082551%
MESA's Proportionate Share of the Net Pension Liability	\$ 12,969,890	\$ 9,925,281	\$ 9,730,641
MESA's Covered-Employee Payroll	\$ 8,015,192	\$ 10,529,417	\$ 9,365,862
MESA's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	161.82%	94.26%	103.89%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	81.08%	86.45%	86.36%

(1) Information presented based on measurement periods ended December 31.

(2) Information prior to 2013 is not available.

MUNICIPAL ENERGY SERVICES AGENCY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM
Last Four Years (1)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contributions	\$ 1,154,846	\$ 961,823	\$ 1,263,530	\$ 1,217,562
Contributions in Relation to the Contractually Contractually Required Contributions	<u>\$ (1,154,846)</u>	<u>\$ (961,823)</u>	<u>\$ (1,263,530)</u>	<u>\$ (1,217,562)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
MESA Covered-Employee Payroll	\$ 9,623,717	\$ 8,015,192	\$ 10,529,417	\$ 9,365,862
Contributions as a Percentage of Covered- Employee Payroll	12.00%	12.00%	12.00%	13.00%

(1) Represents employer's calendar year. Information prior to 2013 was not available. MESA will continue to present information for years available until a full ten-year trend is compiled.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

INDEPENDENT AUDITORS' REPORT

To the Board of Participants
Municipal Energy Services Agency:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Municipal Energy Services Agency ("MESA"), which comprise the statement of net position as of December 31, 2016 and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 19, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MESA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MESA's internal control. Accordingly, we do not express an opinion on the effectiveness of MESA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the MESA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
April 19, 2017